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Restaurant News®

THE NEWSWEEKLY OF THE FOODSERVICE INDUSTRY

SECOND CLASS

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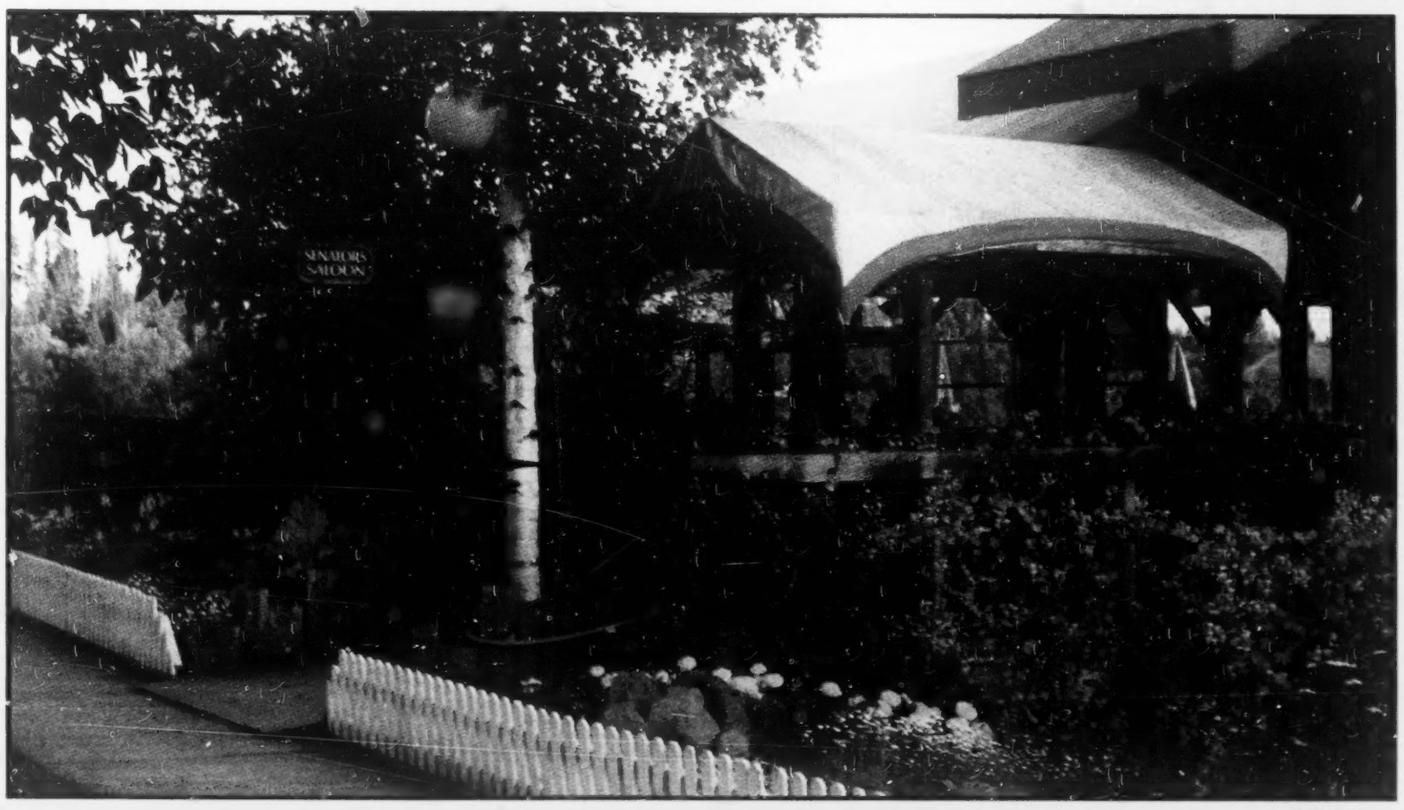

NRN Photo

During Alaska's sunny growing season, the garden outside Pump House in Fairbanks is in full bloom. Sea Galley Stores of Seattle has just bought this landmark restaurant. *See story on page 4.*

Alaska operators grinning after great tourist season

by Carolyn Walkup

ANCHORAGE, Alaska — Taking a hint from the Alaskan grizzly bear's survival instincts of preparing for hibernation, restaurant operators in Alaska's largest city are settling in for a comfortable winter slowdown following a record summer tourist season.

Sales for the year to date are up between 20 percent and 30 percent at Simon & Seafort's Saloon & Grill, the Anchorage outpost of Seattle-based Restaurants Unlimited, according to Michael Hurst, general manager.

"We are one of the few states where the Gulf War helped us more than it hurt us," Hurst noted, suggesting that many travelers making vacation plans during the war chose Alaska as a safe vacation destination.

Tourists made up about 60 percent of summer customers at

(See ALASKA, page 4)

Contractors nab business behind bars

Work to crack tough but growing correctional foodservice business

by Robin Lee Allen

NEW YORK — As the economy continues to shrink business and industry foodservice accounts, contract feeders are shifting their sights to prisons, where government budget cuts and a rapidly growing inmate population are creating new opportunities.

But taking advantage of the burgeoning correctional foodservice market is not easy. Costs associated with employee training and insurance can be prohibitive for smaller contract companies trying to enter the potentially dangerous arena.

And once a contract is won, extracting a profit from the shriveling funds available requires foodservice directors to shrewdly streamline production operations that already

(See CONTRACT, page 99)

INSIDE

Let operators stick to what they do best
NRN Editorial/Page 39

Meet the '91 Golden Chain award winners
Pages 48-64

Olive Garden targets takeout with 'To Go'

by Peter O. Keegan

ORLANDO, Fla. — Aiming to lure time-strapped consumers who want restaurant-quality food, The Olive Garden is jumping into the booming takeout market with a new service called "To Go."

General Mills Restaurants' casual Italian powerhouse is offering the service to any Olive Garden general manager who wants to add it.

Prepared items from the regular menu will be sold alongside uncooked pasta, sauces and other retail items in the front of the restaurants.

The pasta maker, who is one of the first persons guests view upon entering the restaurant, will be the "maître d'" of takeout. He or she will take phone orders, give out information on what is available, ring up checks and make pasta when needed.

"Everybody is so out of time these days and many people are eating at their desks," said Anne K. Powell, media communications director for The Olive Garden, adding that many units have expressed interest in the service. Restaurants located near high-density areas, office buildings, apartment complex-

(See OLIVE GARDEN, page 98)

NRN Photo

Pat Kuleto at the new McCormick & Kuleto's restaurant.

McCormick & Kuleto's off to good start in Fog City

by Alan Liddle

SAN FRANCISCO — Designer Pat Kuleto and restaurateurs Bill McCormick and Doug Schmick are betting that their newly opened McCormick & Kuleto's restaurant has avoided some of the pitfalls that tripped up former occupants of the sprawling Ghiradelli Square site.

After spending $3 million to develop the 20,000-square-foot operation, the three foodservice veterans are confident that the restaurant's horizon-filling views, contemporary maritime decor and moderately priced seafood menu will attract both a local following and the square's bustling tourist popu-

(See MCCORMICK, page 99)

THIS WEEK

NEWS

7 Houston's Montrose area: A new dining destination
7 Sonic Corp. finds 'Happy Days' in fast-food mix
23 City of Hope honors Soliman, 3 other donors
23 Cal Poly beefs up HRM school
26 Favorite Muffin teams with Everything Yogurt
37 Big Boy to open units in Middle East
72 National Food taps Bennett as prexy
76 Pizza Hut teams vie for champion dough master
80 Grizzle leaves Sonic for stint as Orbit prexy
84 Jones wins FMP award from NRA

FOOD

11 Fabricant/Seafood stews reap benefits of rule-breaking era
11 Food News Digest
11 What's Hot in Atlanta

MARKETING

12 Shakey's to stir things up with new promos, agency
12 Marketing Digest
12 Ad Watch

FINANCIAL

14 Tighter cost controls boost Bertucci's income
14 Food Price Outlook
14 Financial Digest
14 Fact File

COAST TO COAST

18 'This is Your Life' gala honors Harman
18 Frumkin/'Big Apple' kids in foodservice
18 Coast to Coast Digest

SUPPLIER NEWS

68 Fast Food Merchandisers names Goins to COO post
68 New Otani Hotel chef snags top prize in recipe contest
68 Supplier Digest

OPINION

39 Let restaurateurs benefit society in ways they know best
39 Secrets for choosing a successful restaurant site
40 Industry falls in step with frugal '90s

MUFSO '91: Preview

45 Industry leaders to speak on 'changing world'
48 '91 Operator of the Year will be . . . ?

OPERATIONS

37 Patterson/Long-term supplier relationships pay off

FEATURES

40 Side Dishes
70 Calendar of Events
86,88 Product Showcase
87 Book Digest
89-97 Foodservice Mart
98 Advertiser Index
98 Subject Index

NRN DIRECTORY

For complete directory, see **page 39.**

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Vol. 25, No. 36 September 16, 1991

NEWS BRIEFS

Chi-Chi's franchisee Consul files for Chapter 11

MINNEAPOLIS — Consul Restaurant Corp., a 41-unit Chi-Chi's franchisee in the United States and Canada, has filed for Chapter 11 bankruptcy protection from its creditors.

Consul, which lost $10.1 million in fiscal 1991, primarily because of restaurant closings, said sales have been depressed for months by economic conditions in the United States and Canada. In a statement the company also said Canadian business was severely affected by a 7-percent goods and services tax that was enacted last January.

Consul added that its Canadian Subsidiary, Concan Foods Ltd., would soon close more of the 17 Mexican-themed dinner houses it operates there.

Marriott to develop Taco Bell units in contract venues

WASHINGTON — Marriott Management Services has signed a licensing agreement with Irvine, Calif.-based Taco Bell Corp., giving it the right to prepare and serve Taco Bell products at many of its contract foodservice accounts nationwide.

Under the agreement, Marriott Management, the contract-feeding arm of the Washington, D.C.-based Marriott Corp., will install Taco Bell express kiosks and free-standing carts at about 2,000 of its business, education and health-care accounts.

Within the past few weeks, Marriott Management has begun operating Taco Bell outlets at George Mason University in Fairfax, Va., and Indiana State University in Terra Haute, Ind. Several more are now under development, officials said.

Seven Taco Bell units are now operated by Host/Travel Plazas, another of Marriott Corp.'s divisions, and five are being developed under that division's jurisdiction.

Domino's, BK end year-long joint pizza test

COLUMBIA, S.C. — Domino's and Burger King have ended their year-old joint test to sell Domino's branded personal pan pizzas through BK outlets located here.

Spokesmen for the nation's second-largest pizza chain and second-largest burger chain said the test ended through mutual agreement, but would not elaborate.

"It just came to an end," said Wendy Lester, a BK spokeswoman, "and we're going to evaluate the results.

"But we remain committed to pizza and are looking at other alternatives."

The test began last summer in four BK units and was expanded to 15 outlets in Columbia, S.C. In most units employees' uniforms bore both BK and Domino's insignia.

Bush sending agricultural experts to USSR

WASHINGTON — In a move that could ultimately ease American restaurateurs' entry into the Soviet Union, President Bush has dispatched agricultural experts to the U.S.S.R. to recommend ways of improving that nation's food production and distribution systems.

The effort could spare U.S. operators from the supply headaches encountered by pioneers like McDonald's, which had to develop food-processing facilities and otherwise blaze its own supply network before it could open a unit in Moscow.

Bush administration officials have indicated that the two teams sent to advise the Soviet Union will look specifically at ways of streamlining the nation's distribution methods.

Sizzler's foreign thrust advanced by Scott's pact

LOS ANGELES — Sizzler International Inc., operator and franchisor of the 690-unit Sizzler chain, said it signed a 50-50 joint-venture pact with Toronto-based Scott's Hospitality Inc. to open and operate a total of 75 Sizzler restaurants in Canada.

Sizzler's deal with Scott's — Kentucky Fried Chicken's largest franchisee, with 379 units, and the owner of the 101-unit Manchu Wok Chinese-food chain — would further the Los Angeles-based company's strategic plan to launch the majority of its new restaurants outside the sluggish U.S. market over the next three years. It currently has five restaurants in Canada franchised to other companies.

Chicago considers limits on mobile food vendors

CHICAGO — A City Council committee is recommending that curbs be placed on mobile food vendors to keep them from parking near restaurants.

The new proposal would stop the sellers of fast-food items, such as pizza, from parking within 200 feet of restaurants. However, the amount of time they could park in a legal site would increase from one-half hour to two hours.

Some members of the Illinois Restaurant Association complained to city officials that the mobile vendors were interfering with their business. The full City Council is expected to approve the committee's recommendations.

Nebraska's Kerrey expected to make presidential bid

WASHINGTON — The restaurant industry may see one of its own running for the presidency in 1992, with Sen. Bob Kerrey widely expected to toss his toque into the ring in late September.

The Nebraskan Democrat operates several restaurants in his home state.

Kerrey, 48, has been mentioned for some time as a possible presidential candidate for the Democratic Party. He has neither confirmed nor denied that he intends to seek the nomination. However, he recently indicated that he will announce in September whether or not he will run.

Pizza Hut negotiating for Orlando licensee

WICHITA, Kan. — PepsiCo-owned Pizza Hut is negotiating to buy Semoran Management, a 56-unit Pizza Hut franchisee based in Orlando, Fla.

Although terms of the deal were not disclosed, a spokesman for Semoran Management confirmed that talks were under way, and that "if all goes well" a deal would be finalized before the end of the year.

Pizza Hut confirmed that a letter of intent for a "merger" between the two companies had been issued, but would not elaborate.

Boston Chicken shutters Atlanta operations

ATLANTA — Thirty-one unit Boston Chicken, the rapidly expanding Brighton, Mass.-based rotisserie chicken chain, has closed its Southeastern divisional office and its only restaurant in this Sunbelt market.

Open less than six months, the 3,000-square-foot Boston Chicken store reportedly was not meeting expectations.

One of the nation's toughest rotisserie chicken markets, Atlanta has two strong local operators — four-unit Tanner's and two-unit Chicken Chalet — and at least three other single-unit independents.

San Diego cops barred from 19 generous cafes

SAN DIEGO — Police Chief Bob Burgreen has ordered his on-duty officers not to patronize two coffee shops and all 17 Sizzler restaurants in the county because they had provided free or discounted food or beverages to police.

In letters sent in February, Burgreen warned Topsy's, the Seven Seas and the Sizzlers about department policy forbidding officers from accepting discounts or gratuities. A department spokesman said internal memos in July and August that announced the prohibitions were necessitated by the need to maintain ethical standards and because the restaurants had been "unwilling" to honor the policy.

Sizzler officials vowed that 20-percent and 50-percent discounts given by three of the chain's restaurants had been discontinued. Police were given 50-percent discounts by Topsy's and reportedly were given free coffee by the Seven Seas.

FINANCIAL NEWS

Tighter cost controls boost Bertucci's income

by Theresa Howard

WOBURN, Mass. — In its first earnings statement since completing an initial public offering, Bertucci's Brick Oven Pizzeria reported a 112-percent year-to-year boost in net income for the second quarter ended July 13.

Net income rose to $546,000 on a 26-percent revenue increase, to $8 million. Same-store sales, or sales at units open at least 12 months, were up by 1.5 percent for the quarter.

Although the 23-unit Italian chain's cost of sales was up, to $2.1 million from $1.8 million, cost of sales was down as a percentage of sales.

"Bertucci's is very appealing from a price value standpoint, said Roger Lipton, managing director for Ladenburg, Thalmann & Co. Inc., a New York-based investment research firm. The restaurant's per-person check averages $7.20 at lunch and $9.40 at dinner.

"Of course, the big test will be their expansion as they move further away from Boston," Lipton said.

Currently the chain operates throughout Massachusetts, New Hampshire and Rhode Island. Long-term expansion plans aim to open units as far south as Florida, according to company president Joey Cruganale.

So far, the company is on target with scheduled openings. Two units have been opened since May, and four more are slated to open by fiscal year ending Dec. 31. The first Connecticut Bertucci's is expected to open later this month.

"The care with which Bertucci's selects its restaurant locations and executes its expansion strategy has been reflected in the performance of its restaurants," said Michael Mueller, restaurant analyst for San Francisco-based Montogomery Securities.

Mueller said he expects the company's 220-seat unit in Peabody, Mass., to be the chain's most profitable unit. That restaurant already has far exceeded projected sales. During its first week of operation, in May, the Peabody unit tallied $100,000 in sales compared with projected sales of $40,000, said Norman Mallett, Bertucci's chief financial officer.

> "Bertucci's is very appealing from a price value standpoint."
> — Roger Lipton

"We're just starting to level off at $80,000 weekly," Mallett said, noting that the average unit generates $2 million in annual sales.

Aside from a rise in sales, an "overall improvement in costs" has helped secure a healthy second quarter, Mallett said. "A lot of it is just a lower cost of sales," he explained.

Operating expenses dropped to 43.9 percent of sales, compared with a 44.8-percent figure for the same period of last year.

Cheese costs, representing 20 percent of Bertucci's food costs, were low through July. And despite reports that August cheese prices have escalated about 24 percent since April, "we have only experienced a 12- to 14-percent hike," Mallett said.

"I don't know why. Maybe we're just doing a better job shopping around," he added.

The company reduced its operating expenses by about 0.5 percent by forming an in-house maintenance team. Previously the company spent 2 percent to 2.5 percent of sales for a service that cleaned the company's brick ovens, Mallett said. Now two people handle the 23 restaurants at a cost 20 percent below the fees for outside service.

The company's performance and IPO have yielded a "strong balance sheet" for the first half of the year, according to Mallett. The IPO has left Bertucci's debt-free and an estimated $15 million in capital for the company's expansion. Bertucci's is expected to spend $6 million to $8 million next year to develop at least six units.

As part of the financial plans, Mallett said Bertucci's will continue to renovate building sites and lease those locations to maintain a positive cash flow.

Through its IPO Bertucci's grossed more than $24 million on 1.8 million shares at $13 a share. Since going public the company's stock has traded as high as $21.25.

"Bertucci's provides a very functional environment and the food offers very good price value," said Landenburg, Thalmann's Lipton. "Additionally, Joey Crugnale is a very hands-on type of leader and very involved guy."

Crugnale had purchased the Steve's Ice Cream concept and developed it into a 26-unit franchised chain before selling the dessert cafe concept in 1981.

FOOD PRICE OUTLOOK

How long will meat prices stay low??

by Patt Patterson

Both **beef** and **pork** are selling at lower prices than they did a year ago. The drop is not extensive but ranges from about 5 percent to 8 percent. The reason: Larger amounts of cattle and hogs have been delivered to the slaughter houses since the middle of August. Those delivery levels are continuing, but most agricultural analysts say an upswell in supplies is normal for late summer and should taper off in fall — within the next month or so — and prices should gradually move back up to their summer levels.

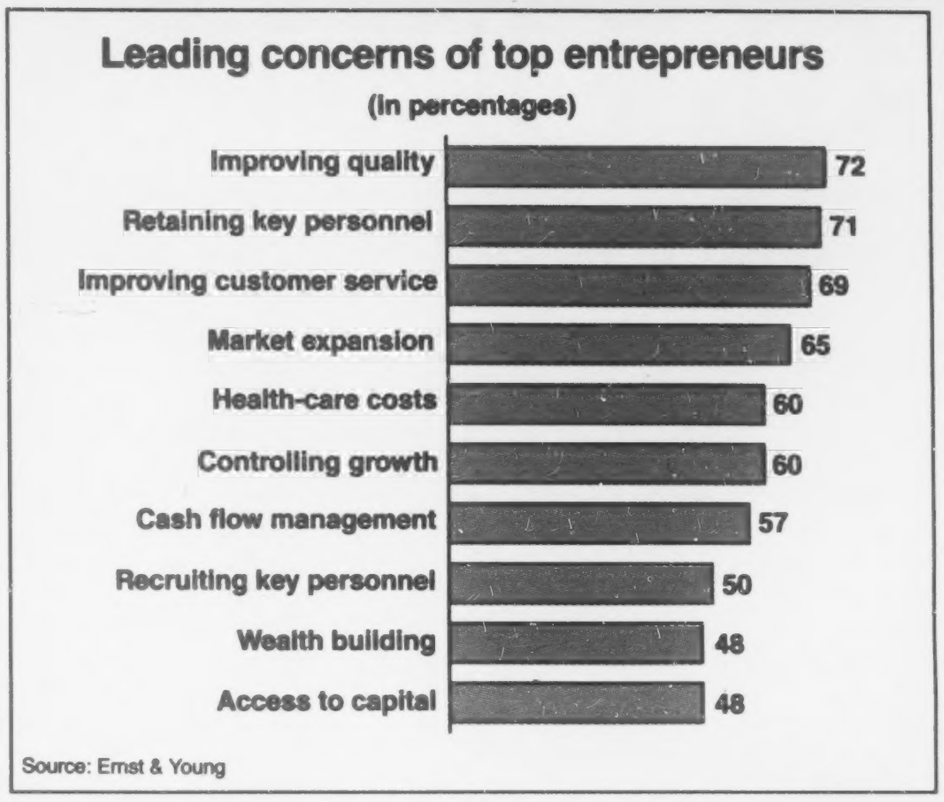
Cheese prices are expected to move up even further during the fall. There's not as much industrial milk available, and the demand for cheese continues to build. Supplies of both Cheddar and Italian-style cheeses are expected to be even shorter by the end of the year. Cheese producers are competing for limited milk supplies with fluid milk, butter and ice-cream processors. With kids back in school, fluid- milk demands are increasing as the demand for ice cream slides from its summer peaks.

Both **coffee** and **cocoa** are down in price from last year's levels; at least the raw materials available to roasters and chocolate manufacturers are. Strong supplies of coffee from Brazil and Colombia are keeping the price of green beans depressed (from the producers' standpoint). There are also large supplies of raw cocoa overhanging the market right now.

How long both of those conditions will continue is largely dependent upon purchases by roasters and processors. The season for coffee roasters to start buying green beans is here, but many of them are well stocked from buys earlier this year when they weren't sure low prices would last.

The supplies of **frozen cod** blocks and slabs — from which sticks and portions are cut — are up. The rise isn't great, but it has taken a little pressure off prices. Cod fillet supplies, on the other hand, are down a bit from the level earlier this summer. Not substantially, but the drop is putting upward pressure on pricing.

FACT FILE



FINANCIAL DIGEST

Furr's/Bishop's Cafeterias' losses mount

LUBBOCK, Texas — Furr's/Bishop's Cafeterias said its cafeteria operations lost $2.5 million in the second quarter ended June 29 on a 9-percent decline in revenues, to $67.7 million.

In the year-ago quarter, the company lost $2.2 million on revenues of $74.7 million.

Furr's/Bishop's said a non-recurring charge, lower customer visits and the continuing pressures of the recession contributed to its losses and revenue decline.

For the half-year mark, the company said it lost $7.5 million on an 8-percent drop in revenues, to $133.1 million.

Despite the tough results, the company said August unit sales volumes were approaching year-ago levels.

Perkins has no reason for trading volume

MEMPHIS, Tenn. -- Perkins Family Restaurants said it knew of no reason for the unusually active trading of its limited-partnership units.

The company issued the statement after a flurry of trading prompted New York Stock Exchange officials to ask it for an explanation.

In one day 55,800 units were traded, whereas in a normal daily trading volume the amount would be about 9,000 units. During the flurry the unit price fell $2.50, to $15.50, before beginning to climb again.

Perkins Family Restaurants is a limited partnership, and its ownership interest trades as partnership units rather than as shares of stock.

Perkins chief financial officer Michael Donahoe said the company knew of no reason for the volatility, and there were no major developments or news events affecting operations.

Cracker Barrel's annual net jumps 50%

LEBANON, Tenn. — Cracker Barrel posted a 50-percent increase in annual net income, to $22.8 million, on a 17-percent rise in revenues, to $300.2 million, for the year ended Aug. 2.

The company said same-store sales rose 11 percent from the 1990 figure.

For the three months ending the period, Cracker Barrel posted a 42-percent gain in net income, to $9.6 million, on a 27-percent gain in revenues, to $91.7 million.

During the quarter same-store sales jumped 11 percent over the volume for the year-ago period.

The company ended the year with 106 restaurants and said it planned to open 21 during fiscal 1992.

Opening expenses squeeze Cucos' net

NEW ORLEANS — Cucos said its net income for the year ended June 30 fell 17 percent, to $150,000, largely as a result of preopening expenses.

Revenues rose 9 percent, to $14.9 million.

The company said its annual net income was lowered by $164,000 in charges for the opening of company units.

But for the quarter net profits rose 55 percent, to $24,138, on a 3-percent rise in revenues, to $3.6 million.

"Earnings recovered moderately in the fourth quarter of fiscal 1991 from the break-even results recorded in the second and third quarters of the fiscal year," noted Vincent J. Liuzza, chairman and president.

Cucos is a Sonoran-style Mexican restaurant chain that operates 13 company units and franchises 17 restaurants in the Southeast.